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# ANNUAL REPORT

*of the*

# GENERAL SHOE CORPORATION

# FOR THE YEAR ENDING OCTOBER 31, 1937



NASHVILLE
TENNESSEE

MRb
Corp. File

Nashville, Tennessee
November 24, 1937

TO THE STOCKHOLDERS OF THE
GENERAL SHOE CORPORATION:

The fiscal year of the General Shoe Corporation ended October 31, 1937. This report includes Balance Sheet showing the condition of the company at the end of the year, Income Account and Surplus Account for the period covered by the report, and general comment on operations during the year.

Net sales to customers for the period amounted to $14,039,436.29. This is the largest year in the history of your Company, exceeding all previous years in both dollar sales and pair sales. In addition, subsidiary manufacturing produced materials amounting to $1,132,388.46. This, combined with net sales to customers, made a total net business volume transacted of $15,171,824.75.

Net sales to customers during the previous twelve months period were $10,080,380.88. Thus this year represents an increase of 39.3% over the previous year. The company has pursued an aggressive policy, and this record which is very gratifying is an indication of the standing which your company has in the shoe industry.

Earnings per share on the common stock outstanding October 31, 1937, after Preferred Dividends, amounted to $1.54. Comparing this with the previous year, and adjusting for the four for one split in common stock, earnings per share last year amounted to $1.51 on the new basis. There was considerable increase in the number of common shares outstanding during the year.

Total Net Profits this year amount to $758,251.72 compared with net profits during the previous year of $659,157.97. This represents an increase of 15% which is not as large an increase as the percentage increase in sales. This is partially explained by the fact that the considerable increase in capacity has made necessary a good many unusual expenses in setting up new equipment for operations, particularly in training new operators, and developing an organization to take care of increased volume. In addition to this, however, the costs of doing business have increased very considerably, particularly on the item of taxes. Also, at our inventory period, the lower prices at which inventories were taken, and the reserve set up for commitments, prevented a further increase in profit.

The current ratio is 7.13 to one, as compared with 6.38 last year.

Provision has been made for Federal taxes and all other taxes. Reserves have been set up for doubtful accounts, collection expense, and discount, and we believe that adequate provision has been made for depreciation. Values placed on inventories represent cost or market, whichever is lower.

The net worth of the Corporation is now $4,523,945.03. The working capital is $3,474,058.41 as compared with $2,742,800.60 last year.

Finished goods inventories at the end of October, 1937, amounted to approximately three weeks' supply. It will be noticed that a special reserve of $100,000.00 was set up to cover possible losses on purchase commitments made by the company. Raw material supplies on inventory and commitments on raw materials were somewhat lower than is normally carried by the company, due to the uncertainty of the raw materials market.

On June 15, 1937, the stockholders approved a change in the authorized capital of the company, changing the outstanding 4,963 shares of 8% cumulative preferred stock to 99,260 shares of no par, 40¢ cumulative preferred stock, entitled to $5.00 per share in liquidation, callable at $7.50 per share. The common stock, instead of being separated into two classes A and B, was split four for one and converted into one class of common, with a par value of $1.00 per share, and a total authorization of 1,200,000 shares of this new common stock. The stockholders became entitled to exchange one share of old preferred stock for twenty shares of new preferred, and one share of old common stock, either class A or class B, for four shares of new common. Each share of new stock, both common and preferred, has one vote.

Dividends paid during the year amounted to $1.13¾ per share on the new basis. This compares with dividends paid during the preceding year of 31¼ cents per share figured on the new basis.

Prospects for the coming year are rather uncertain. There has been a drastic decline in hide and leather prices. There have been adjustments in shoe prices, and there will doubtless be some distress on the part of some producers. Costs are likely to increase more, particularly as the new Social Security Taxes go on the first of January. Various regulatory laws by Congress with arbitrary boards seeking to direct business operations are likely to be a deterrent. General business activity does not look very bright for the coming season. Nevertheless, the Corporation is flexible, quickly adapts itself to changing conditions, and has a good control of its operations. It is believed that operations can be adjusted to any new situation as well as any unit in the industry.

The statements submitted in this report in summary form have been certified by Peat, Marwick, Mitchell and Company, Certified Public Accountants.

Respectfully submitted,

W. M. JARMAN,
*President*

J. F. JARMAN,
*Chairman of the Board*

# BALANCE SHEET

October 31, 1937

## ASSETS

| | | |
|---|---|---|
| Current Assets: | | |
| Cash in Banks and on Hand | $ 503,436.73 | |
| Customers' Accounts Receivable Less Reserve for Cash Discount and Doubtful Accounts | 1,395,488.88 | |
| Miscellaneous Accounts Receivable | 37,662.38 | |
| Inventory of Manufactured Merchandise | 963,685.73 | |
| Inventory of Raw Materials and Merchandise in Process, and Raw Materials in Transit | 1,140,454.64 | |
| Total Current Assets | | $4,040,728.36 |
| Employees' Stock Purchase Accounts (Under Installment Plans for Purchase of Common Stock) | | 211,368.07 |
| Real Estate, Buildings, Machinery, Equipment, Improvements to Leased Properties, Less Reserves for Depreciation and Amortization | | 1,008,672.06 |
| Goodwill, Patents and Trade-marks | | 1.00 |
| Total | | $5,260,769.49 |

## LIABILITIES

| | | |
|---|---|---|
| Current Liabilities: | | |
| Accounts Payable—Not Due | $ 49,842.12 | |
| Customers' Credit Balances | 6,766.33 | |
| Accrued Expenses for Royalty, Payrolls and Taxes | 126,241.59 | |
| Provision for All Income Taxes | 248,842.07 | |
| Officers' and Employees' Balances and Deposits | 134,977.84 | |
| Total Current Liabilities | | $ 566,669.95 |
| Reserve for Contingencies | | 54,216.39 |
| Reserve for Insurance, etc. | | 15,938.12 |
| Reserve for Possible Loss on Commitments | | 100,000.00 |
| Capital and Surplus: | | |
| Preferred 40¢ Cumulative—Outstanding 99,260 Shares | $ 496,300.00 | |
| Common—Outstanding 467,384 Shares | 2,111,939.51 | |
| Earned Surplus | 1,915,705.52 | |
| Net Worth | | $4,523,945.03 |
| Total | | $5,260,769.49 |

| | |
|---|---|
| Current Assets | $4,040,728.36 |
| Current Liabilities | 566,669.95 |
| Working Capital | 3,474,058.41 |
| Current Ratio | 7.13 to 1 |

## INCOME ACCOUNT

**For Year Ended October 31, 1937**

| | | |
|---|---|---|
| Net Business Volume Transacted | | $15,171,824.75 |
| Less Sales Value of Production of Subsidiary Manufacturing | | 1,132,388.46 |
| Net Sales of Shoes and Other Manufactured Merchandise to Customers | | $14,039,436.29 |
| Cost of Shoes and Merchandise Sold after Charging All Expenses, Depreciation, Maintenance, Credit Losses, Reserves, Etc., Less Discount on Purchases | | 13,039,184.57 |
| Net Operating Profit | | $ 1,000,251.72 |
| Provisions for All Income Taxes | | 242,000.00 |
| Net Income for Year | | $ 758,251.72 |

## STATEMENT OF EARNED SURPLUS

**For Year Ended October 31, 1937**

| | | |
|---|---|---|
| Surplus as at October 31, 1936 | | $ 1,708,365.35 |
| Add: | | |
| Net Income for Year Ended October 31, 1937 | | 758,251.72 |
| | | $ 2,466,617.07 |
| Deduct: | | |
| Dividends Paid: | | |
| Preferred 40¢ Cash | $ 39,704.00 | |
| Common, $1.13¾ Per Share Cash | 511,207.55 | |
| Total Dividends Paid | | $ 550,911.55 |
| Surplus as at October 31, 1937 | | $ 1,915,705.52 |

# COMMENT ON OPERATIONS

THE MANAGEMENT of the General Shoe Corporation definitely feels the responsibility to present to the stockholders important facts in regard to the affairs of the Corporation. The information presented in the annual report is to enable the stockholders to obtain a better understanding of the Corporation's position, and the trend of its various operations.

The underlying objective of this business has been to build a progressive and enduring organization rather than to have a business that is designed to last only a few years. It is believed that this business will develop into an institution that stands for worthwhile principles of operation. Institutions must be based on ideals of achievement, and a background and foundation of character that will carry on through the years.

Much has been heard about the two factors in business—capital and labor. It is believed that there are at least five different factors in business that should be given consideration. There is certainly a responsibility to the stockholders who represent the ownership of the capital of the business. There is a responsibility to the employees of an industrial organization—those who by their efforts contribute toward the production of goods, but who without the aid of capital would have their efforts very much less productive of results. But in addition to these two factors, there is a responsibility of the business to its management. Management is a definite factor in business because frequently it is found that a business with plenty of capital and plenty of labor, but without the necessary factor of management cannot make a success. The business must offer such opportunities to alert, responsible men that it will attract the best available management, and offer opportunities to younger men coming on in the organization to build themselves up to responsible positions. Going a step further, the business has a very definite responsibility to its sources of supply, and the relationships of this business have always been particularly friendly with its sources of supply, and close working relations have been established which have helped in the progress of the business. Last, but not least, business has a very definite responsibility to its customers, and through its customers to the public at large. A business that does not render a service has no justification for continuing in business. There are, then, at least five factors that must be considered in a business organization—the capital, the labor, the management, the sources of supply, and the customers.

***The Five-fold Character of Business***

The General Shoe Corporation has been outstanding in the industry in its relations with employees of the company. Every effort has been made to see that every employee gets a square deal, and that every employee has an opportunity to improve himself, and to earn a steady income. The growth of the company has made possible the advancement of many employees of the company, and the steady work has provided steady income.

***Employee Relations***

During the past five years, the wage level of employees of the company has advanced between 25% and 30%. During that same period, it is estimated that the cost of living has advanced approximately 18%, so that the advancement in wage levels has been approximately 50% more than the advancement in living costs, thus meaning an improved standard of living for the employees of the company. The wage levels maintained by the company are among the highest in the communities in which the plants are located, thus assuring the choice of the very best class of help in these communities. Wages received by employees compare very favorably with the shoe industry as a whole, and on the average will be somewhat higher than the shoe industry all over the country, although a large percentage of employees in our factories are still undergoing training.

Our labor relations program includes a large number of activities. The Employees' Benefit Association, cooperatively maintained by the employees and the company, takes care of employees when they are out sick. When hospital attention is necessary and surgical operations are performed, the company assists in the expenses of the employees. The insurance plan covers about 90% of the employees of the company, part of the cost of which is shared by the company. The company has a paid vacation plan for all employees who have been with the company for a period of two or three years, depending on the location of the plant. First Aid Rooms with trained nurses in attendance are maintained in each factory to take care of any emergency accident or sickness. Inspection committees of the employees check working conditions, safety, economy of operations and cleanliness each week, and once each month group meetings of these inspection committees are held in each factory, when dinner is served at the expense of the company and the employees are encouraged to present their suggestions. Credit Unions have been organized in two of the plants by the employees and have been of great value in assisting employees to secure loans at reasonable rates, through this cooperative banking arrangement. Athletic teams of various sorts are particularly important in all of the factories. This includes baseball —both hard and soft ball—tennis, basket ball, bowling, horseshoe pitching, and various other activities of this sort, and a large number of the employees—both men and women—take part in this athletic program.

Particularly fine records have been set up in some of the factories on a safety program. The Tullahoma plant has established a record, unique in the South in industrial plants, of 2,000,000 man hours without a lost time accident. This plant was presented with a special plaque by the insurance company carrying the workmen's compensation insurance, and a special factory-wide meeting was held celebrating the reaching of this point without a lost time accident.

*Safety Program*

With the rather rapid expansion of the business, training programs have been particularly important in the progress of the company. It has been important to train young men and young women in the various technical shoe making operations. In addition to that, work is being done now toward executive training, providing training for younger people in the employ of the company with a view toward developing such people for more responsible supervisory jobs. This training program is particularly important for the future enduring growth of the Corporation.

*Training Program*

A wide range of shoes is being made by the Corporation at present. A large part of the production is on men's shoes. These are in popular price brackets and in retail prices running from $3.00 to $7.50. These men's dress shoes cover a wide range of styles for all sections of the country. In addition to regular men's dress shoes, quite a variety of riding boots, field boots and cowboy boots are manufactured. Also a wide range of boys' shoes including boys' boots is produced. At the Atlanta plant a popular priced line of girls' and women's shoes is manufactured. These are chiefly of welt construction with low and medium height heels, the large majority in sport patterns.

*Kinds of Shoes Produced*

The largest part of the business is based on shoes that are carried in stock in our storerooms in Nashville and Atlanta, and sold direct to the independent retail merchant, from these stock departments. In addition to this, however, for the larger companies willing to carry their own stock departments, shoes are made to their specifications and under their own brands. In certain larger cities the company has also established retail stores to assist in the nation-wide distribution of its products.

*Sales Methods*

The National Advertising programs of the various sales divisions have been very effective in building consumer good will, and in establishing trade names. During the past year, a strong campaign of magazine advertising was employed in addition to a national radio program. During the coming year, it is planned to continue the strong magazine advertising, and

*Advertising*

also to have a radio program on the Fortune shoes during the Spring season. The advertising of the Jarman Division has been handled during the past year by Tracy, Locke, Dawson of New York City, and the advertising of the Richland Division on Fortune shoes and the Belle Meade Division on Skyrider shoes, by Badger, Browning and Hersey of New York City.

***Export Sales***

The export volume showed a splendid increase during the year, and while the volume of shoes exported from this country into other countries is not large, we are getting a slightly larger percentage of the total amount of men's and boys' shoes shipped out from this country. Our percentage this year amounted to 8½%, compared with 7½% last year.

***Tariff Protection***

There has been considerable publicity in the newspapers in regard to a Reciprocal Trade Agreement that is being considered by the State Department in Washington with Czechoslovakia, especially in regard to possible concessions on shoes imported into this country from Czechoslovakia. One company in Czechoslovakia this year will ship into the United States between two and three million pair of shoes. This number has been growing every year, and is a serious menace to the shoe industry. The standard of living and wage rates in Czechoslovakia are very much lower than in this country, and it does not seem reasonable to try to maintain the standards that we have and at the same time lower the restrictions on shoes coming into this country from abroad. Wages in the shoe industry in the United States will average, according to estimate, about 150% higher than those in Czechoslovakia. As a matter of fact, wages in the shoe industry in the United States are higher than any other country in the world—for instance, 100% higher than the shoe industry in England. In many other countries levels are even further down than this. At this time there is a tariff on shoes coming into this country from Czechoslovakia of between 20% and 30%, which is not adequate to protect the standard of living and wage rates maintained in this country.

As a matter of fact, shoes shipped into this country by Czechoslovakia are not a particular problem to this company. These shoes from Czechoslovakia are mostly low-priced shoes, and almost entirely low-priced women's shoes which is a field that does not particularly affect this company. Nevertheless, from the industry's standpoint, this company is very much interested in obtaining the proper sort of protection.

Conditions in the shoe industry in Czechoslovakia have been studied at first hand by a visit during the past year to that country, and some very worthwhile information was developed from this visit.

During the early part of the past fiscal year, shoe prices had a rather continuous advance. Your company did not advance its prices as much as other companies, and so with the commodity price decline that has been general during the Fall, it is not necessary to make radical readjustments in prices on the various lines. The falling off of commodity prices did prevent further advances on prices for the Spring line which is fortunate as this will eliminate resistance caused by advancing prices.

*Trend of Prices*

Hide prices have declined drastically, and for the coming year, it is likely that shoe prices will be on a very competitive basis which will doubtless tend to reduce the profit margin considerably.

It is the policy of the Corporation to try to run on as even production as possible throughout the year. This has a number of advantages. It means the fullest possible use of the equipment as well as the organization without extra expense required for operations, and at the same time provides steady work for employees of the company without lay-offs resulting from irregular production schedules. However, as the shoe industry is a rather seasonal business with peaks occurring in the Spring and Fall, the problem of even production necessitates building up stocks of merchandise during the Winter and Summer. At October 31, 1937, the finished shoes amounted to only approximately three weeks' supply. In order to properly serve the customers, it is necessary to carry a good sized basic stock, and this stock was hardly enough to meet the immediate order requirements. As in the past, our stock will be built up during the Winter months to take care of rush Spring requirements.

*Operating Policies*

Salesmen selling the Spring lines have been out in their territories since about the twenty-fifth of October, and orders are coming in at a very good rate.

In order to secure the character of raw materials used by the various lines that are produced, and in order to maintain an even production schedule, it is the policy of the company to place contracts ahead with the various sources of supply covering needed raw materials. Regardless of market conditions, it is the policy of the company to live up to such contacts to the letter. Due to the declining market, some of the contracts placed are at higher prices than present-day quotations. Therefore, a reserve was set up as will be noticed from the balance sheet for possible market variations. As of October 31, raw material commitments of the company were several weeks lower than the normal period covered.

*Raw Material Supplies*

*The Cost of Government*

The tax burden has become an increasingly heavy one. Taxes paid by the company during the past year amounted to $409,121. This is a 113% increase over the previous year which amounted to $191,464. In other words taxes in one year more than doubled. These taxes amounted to 90¢ per share of outstanding stock, or $110 per employee of the company. Social Security Taxes again increase the first of January, 1938. The cost of government is becoming a load on business that is slowing down progress and stifling incentive. However, tax reduction as such is not the root of the matter. Sentiment must be aroused against the increasing expenditures of both federal and local government, benefits to special classes of citizens, and against the waste that is apparent on every side.

*New Factory*

During the past year the company has moved into a new factory building in Gallatin, Tennessee, making two plants in operation in Gallatin. This building was put up according to specifications of the company by the city of Gallatin.

*Number of Stockholders*

At the end of our fiscal year there were approximately 860 stockholders. Quite a number of the employees own stock in the company, and the company has encouraged this by making it possible for employees to buy stock, paying for it out of their income.

*Prospects*

There has been a serious decline in all commodity prices, including hides and other commodities used in manufacturing shoes, which means that buyers of shoes will doubtless curtail their buying program. The shoe industry during the past several years has operated at a very high rate of capacity. Inventories on the hands of retailers are doubtless somewhat higher than normal. For these reasons, a decline in production in the industry is expected for the coming year. Nevertheless, shoes are a very staple item, and the field covered by the products of this company, appealing to the masses, always represents a good volume of shoe production. The company has instituted several new plans to secure an additional volume of business, both on the present type of shoes manufactured, and in some cases on additional types of shoes. Prospects on the whole indicate a very difficult period, but your company has a splendid organization and is flexible enough to meet conditions as they arise and it is believed will adjust itself to conditions in the industry and in the country.

# GENERAL SHOE CORPORATION

NASHVILLE, TENNESSEE

### *DIRECTORS*

| | |
|---|---|
| William M. Blackie | W. Maxey Jarman |
| Henry W. Boyd, Jr. | J. Harlan Lawson |
| Earle T. Bumpous | George W. Noland |
| J. Frank Jarman | William H. Wemyss |

### *OFFICERS*

J. Frank Jarman ..... *Chairman of the Board*
W. Maxey Jarman ..... *President*
William H. Wemyss ..... *Executive Vice President*
J. Harlan Lawson ..... *General Manager*
William M. Blackie ..... *Vice President*
Earle T. Bumpous ..... *Vice President*
George W. Noland ..... *Vice President*
Henry W. Boyd, Jr. ..... *Secretary and Treasurer*
Charles W. Cook ..... *Assistant Vice President*
James P. Saunders ..... *Assistant Vice President*
Houghton D. Vaughn ..... *Assistant Treasurer*
Otis C. Williams ..... *Assistant Secretary*

Registrar and Transfer Agent—Third National Bank, Nashville, Tenn.
Annual Meeting of Stockholders—March 7, 1938

### FACTORIES

Nashville, Tennessee
Gallatin, Tennessee
Tullahoma, Tennessee
Lewisburg, Tennessee
Atlanta, Georgia

### SALES DIVISION

Jarman Shoe Company
Richland Shoe Company
Davidson Shoe Company
Belle Meade Shoe Company
Dominion Shoe Company
Edgewood Shoe Factories